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**BOARDS AS NORMATIVE ARENAS:  
CORPORATE GOVERNANCE AND THE ROUTINES OF  
CEO SELECTION**

**Working Paper No. 3724-94**

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# **Boards as Normative Arenas: Corporate Governance and the Routines of CEO Selection**

## **Abstract**

I develop a conceptual model of corporate boards as normative arenas, self-regulated by rules embodied in the organization's norms and routines. I apply this theory to explain the routinization of CEO selection in U.S. industrial corporations. An analysis of the competing risks of insider versus outsider succession provides strong evidence for reliance on formal and informal CEO selection routines. To test for alternative explanations for why boards rely on selection routines, I examine the mediating effects of performance, firm age, ownership structure, and early CEO departures on their persistence. The findings support the view of boards as normative arenas.

The governance of U.S. corporations is undergoing renewed scrutiny by organization theorists, strategy researchers, financial economists, and by the general business press. While both organizational and economic theorists have traditionally viewed corporate boards as mechanisms for adapting the organization to environmental and market demands (Pfeffer and Salancik, 1978; Fama and Jensen, 1983), researchers are increasingly questioning their effectiveness as instruments of corporate control (Walsh and Seward, 1990). Jensen (1993), in his presidential address to the American Finance Association, attributed the inability of U.S. corporations to adapt effectively to changing competitive and financial environments during the 1980s to the inertia and failure of corporate governance. General Motors, IBM, and Eastman Kodak provide well-publicized instances of the persistent failure of corporate boards during the 1980s and early 1990s to foster change in corporate strategies and structures, except when confronted with crisis. Jensen (1993: 863) argues that board culture is an important component of board ineffectiveness, with their emphasis on "politeness and courtesy at the expense of truth and frankness." However, the question remains: why do boards value consensus and discourage overt conflicts? What causes inertia in corporate governance and the "failure" of boards of directors to foster corporate adaptation?

I will argue that existing explanations of corporate governance are incomplete — most of the literature and controversies regarding boards of directors has focused on the role of contending interests in shaping board decisions yet much, if not most, of board actions are governed by a logic of appropriateness and rule-following (March and Olsen, 1989). Corporate governance typically involves not instrumental control over contending interests, but reliance on the appropriate rules of corporate behavior. This implies that board decisions are often determined, not by a calculus of the consequences of alternative courses of action, but by the application of norms, rules, standardized patterns of behavior, conventions, and organizational routines to the specific situations faced by the organization. Board routines persist through time as their actions become institutionalized and norms of appropriate beliefs and behavior are established

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(Zucker, 1977; March and Olsen, 1989). The reliance in and the persistence of routines of board decision-making implies that the formal mechanisms of corporate governance are characterized by organizational inertia (Hannan and Freeman, 1984).

Adaptationist theorists have highlighted the importance of CEO succession and selection as mechanisms by which organizations and their boards are able to align the organizations with environmental contingencies and resource dependencies (Pfeffer and Salancik, 1978; Tushman and Romanelli, 1985). Outsider succession, in particular has been seen as a trigger of organizational change (Helmich and Brown, 1982). But this paper will contend that the selection of either insider or outsiders as CEOs is a routinized process, conditioned by the formal and informal routines of CEO selection. These norms and routines of CEO selection increase the accountability and reliability of boards and serve to channel corporate actions. At the same time they limit their capacity to foster organizational change and adaptation.

This paper examines the persistence of routines of corporate governance in the context of selection of insiders versus outsiders as CEOs. The objectives of the paper are as follows: (1) to develop a theory of corporate boards of directors as normative arenas, which are guided by a logic of appropriateness and rule-following; (2) to apply the theory to explain the reliance on and persistence of formal and informal routines of CEO selection; and, (3) to examine how the persistence of routines is mediated by the age, economic performance, and ownership structure of the corporation, as well as by the timing of CEO departure. This paper contributes both to the theoretical literatures on corporate governance and organizational routines and to the empirical research on CEO selection.

## **THEORIES OF CORPORATE GOVERNANCE**

### **Boards as Governing Councils**

Following Berle and Means' (1967) classic study of the separation of ownership and control in American corporations, theory and research on corporate governance has focused attention on

the question of who controls the corporation and its board of directors and the relative power of managerial, shareholder, and class interests in shaping instrumental control. Three alternative theoretical approaches predominate in the organizational literature: agency theory, imported from financial economics (Jensen and Meckling, 1976; Fama and Jensen, 1983; Tosi and Gomez-Mejia, 1989; Zajac, 1990), focuses on the effects of ownership structure and board control in aligning the interests of management, the agents, with the interests of the shareholders, the principals; managerialist theory (Pfeffer and Salancik, 1978; Fredrickson, Hambrick, and Baumrin, 1986; Boeker, 1992; Cannella and Lubatkin, 1993), focuses on the role of management in controlling board processes to guarantee survival of the firm and its political coalition; and social structural theory (Mizruchi, 1982; Palmer, 1983; Useem, 1984; Davis, 1991) focuses on the interests and position of networks of elite board members in shaping board behavior and decision-making. Agency, managerialist, and social structural theories of corporate governance vary in their views of whether the interests of shareholders, managers, or networks of elites predominate in board decision-making. All three perspectives implicitly agree, however, on the disciplinary role of boards of directors as governing councils, which control and mobilize resources in support of contending economic and political interests.

Governing councils are social groupings that mobilize both social capital and material resources for controlling and disciplining the behavior of actors and identities in production and exchange activities (White, 1992). Examples of governing councils given by White include Hollywood film production, parliaments, cooperative federations, commissaries, and royal councils. Actors in governing councils are characterized by their dependencies on the rooted interests of the diverse factions to which they are tied. The essence of governing councils are the maneuverings of these factions around substantial outcomes (White, 1992). Executive compensation, CEO dismissals, and the adoption of takeover defenses are some of the examples of the substantive decisions by corporate directors in which past studies have found that boards allocate resources in support of the interests and allegiances that they represent

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(Wade, O'Reilly and Chandratat, 1990; Boeker, 1992; Davis, 1991). The identity of boards of directors as governing councils highlights their strategic role in firm decision-making, but ignores the routines which characterize much of what boards do.

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Participants and observers of board decision-making note that corporate boards rarely initiate corporate actions, seldom explicitly consider the conflicting interests of the members of the firm's political coalition, and almost always reach decisions by consensus (Mace, 1971; Lorsch, 1989; Bowen, 1994). Boards of directors are subject to norms and rules of appropriate behavior that structure board meetings and decision-making. While most existing theories of corporate governance focus on the instrumental control function of board of directors, the observations of board behavior present a very different view, one that highlights the rule-bound process of board decision making. Hirsch (1982: 12) in interviews of board members of Fortune 500 companies found that directors do not think of themselves as representing any outside interest or organizations in their role as board members but are self-regulated by a "widely shared normative structure of appropriate behavior and forms of control." To account for these observations and for the prevalence of routines in corporate governance, I will argue that boards often serve as normative arenas,<sup>1</sup> where decision are governed not by a logic of interests or consequences, but by a logic of appropriateness and social identity (March and Olsen, 1989; March, 1994).

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<sup>1</sup> I use the term "normative" with some concern that it might be misinterpreted, as it connotes for some a Parsonian, oversocialized conception of behavior. As Garfinkel (1967) and many others have shown, norms and routines both inside and outside of organizations are extremely fragile and subject to challenge. Norms are best understood, in my interpretation, not as rigid rules followed by "cultural dopes," but as tools that provide a sense of meaning and social identity to those that enact them. Norms of corporate governance are not external to board members, but are actively created and reproduced by participants in the arena.

## Boards as Normative Arenas

Building upon both White's (1992) theory of arena disciplines and March and Olsen's (1989) analysis of rule following, institutionalized action, and the logic of appropriateness, I will define normative arenas as social groupings that create and enforce socially constructed rules and procedures that represent the social identity of the participants in the arena and the appropriateness of their activities. Examples of normative arenas include professional accreditation and licensing boards, functional departments in corporations, appellate court systems, and editorial peer review boards. Normative arenas are a form of discipline, distinct from governing councils, whose control function resides in their ability to select and exclude the social and material activities of the actors in the discipline in terms of socially-negotiated rules of what is or is not the right thing to do. Normative arenas are characterized by a conversation among a community of participants, one in which the vocabulary of motives is based primarily on normative commitments rather than on material interests. Normative arena disciplines presuppose a common social identity by participants and shared assumptions regarding the appropriateness of the rules and standards. Otherwise, arena disciplines are likely to break down, and decisions will be based instead on the concrete economic, social, and political networks of relationships of participants within the arena. Normative arenas place strong reliance on historical precedent to guide their decisions. The rules, standards, and principles which take force within the arena are not fixed, however, but evolve and change with the values and beliefs of their participants (White, 1992)<sup>2</sup>.

I argue that boards of directors typically act as normative arenas, concerned with the legitimacy and appropriateness of board decision-making, and with matching corporate decisions to the rules, standards, and principles prevalent in the organization. They exert control over the

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<sup>2</sup> White's (1992) concept of arena is much broader than that of normative arenas and includes other forms of selection processes including exchange markets. Exchange markets share with normative arenas a concern with self-regulation based on the values established by participants in the arena, but in the former case the values are market prices while in the latter they are normative commitments.

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corporation not by “deciding” on how resources are allocated and distributed among the various stakeholders that constitute the firm's political coalition, but by evaluating the appropriateness of the activities and procedures undertaken by the organization. The view of boards as normative arenas emphasizes the active agency and ongoing achievement required on the part of board members in the reproduction of the rules, routines, and conventions that govern how things are done in organizations and how organizational members play by those rules. For example, boards of directors will be concerned with monitoring established procedures for the articulation of a strategic direction, plans, and objectives by management, and making sure that those strategies selected match the then-prevailing standards of appropriate firm practices. But contrary to what is implied in the view of boards as governing councils, directors rarely initiate corporate strategies or independently evaluate the consequences of the alternatives considered, and it is a taboo subject to consider openly the effects of such strategies on the various organizational stakeholders (Lorsch, 1989).

The identity of boards as normative arenas highlights their role in the formalization and standardization of modern corporate bureaucracies. Boards are both a symbol of the rationality prevalent in corporate structures (Weber [1922] 1978, Meyer and Rowan, 1978), and a controller of corporate activities to assure their accountability and reliability (Hannan and Freeman, 1984). These functions presuppose a set of agreed-upon norms and routines of corporate governance, which serve as precedent and guidance for board decisions. Examples of informal norms of corporate governance include limits on open criticism of the CEO, not contacting fellow board members outside of meetings, and for most boards, using a rhetoric of shareholder interests to explain board decisions (Mace, 1971; Lorsch, 1989). Examples of routines of corporate governance include the formal reliance on committees of outside directors for setting executive compensation and for monitoring corporate audits, the approval by boards of all capital expenditure decision above a certain amount, and the standardization of the CEO succession and selection process. Routines of executive succession and selection, in particular,

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embody the board's role in what Weber ([1922] 1978) calls the "routinization of charisma" as the power and authority of the founding chief executive becomes depersonalized and is invested in the formal position, rather than in the individual occupant. The norms and routines of corporate governance embody the mission, identity, understandings, and commitments of the corporation (Selznick, 1957). The logic of appropriateness that guides the disciplinary function of boards as normative arenas is shaped by both the legal fiduciary requirements (Clark, 1991) and the normative commitments that board members exercise the duties of loyalty, care, due diligence, good business judgment, with their ultimate responsibility to "do the right thing" (Lorsch, 1989: 70). Norms and routines of corporate governance increase the accountability and reliability of board members in accomplishing these fiduciary duties and normative commitments.

## **FORMAL AND INFORMAL ROUTINES OF CORPORATE GOVERNANCE**

The routinization of organizational activities and decisions is an idea with a long history and tradition in organization theory (Weber, [1922] 1978; March and Simon, 1958; Cyert and March, 1963; Nelson and Winter, 1982; March and Olsen, 1989; March, 1994). Although the specific terminology used differs by various authors and includes bureaucratic rules, programs, standard operating procedures, routines, conventions, and organizational norms, the various terms connote behavioral, cognitive, and cultural persistence in organizational behavior and decision making. In this paper I use the term routines to describe the regular and predictable patterns of behavior, cognition, and values in organizations. Routines include both formal rules and procedures, as well as informal rules, or norms. Routines are history-dependent, socially constructed programs of action that embody the knowledge, capabilities, beliefs, values, and memory of the organization and its members and which are invoked in response to environmental stimuli. Routines both facilitate and constrain behavior by (1) conserving on the cognitive capabilities of individuals (March and Simon, 1958); (2) providing for accountability

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and reliability of organizational activities (Hannan and Freeman, 1984); and, (3) limiting and channeling political conflict in organizations (Cyert and March, 1963; Nelson and Winter, 1982).

### **The Role of Routines in Alternative Theories of Corporate Governance**

That routines characterize organizational activities is a commonplace in the organizational literature. That they also characterize major decisions of boards of directors is less-well accepted or incorporated into the research literature. Although empirical evidence for the persistence of routines has been found in decisions in which board members play at least a formal role, e.g., corporate mergers (Amburgey and Miner, 1993), the theoretical literature on corporate governance has not acknowledged or accounted for the routinization of board decisions. Furthermore, the concern with instrumental control and resource mobilization that characterizes existing views of boards as governing councils would imply that board routines, if observed, are an ephiphenomena, a reflection of bounded rationality in the pursuit of material interests by the board's dominant coalition. In particular, the view of boards as governing councils implies that routines of corporate governance are unlikely to persist as the conditions that led to their establishment vary, as failures in performance trigger search for new routines, and as the material interests of controlling board members change.

While the persistence of board routines is not easily reconciled with views of boards as governing councils, it is an observable implication of the view of boards as normative arenas. Routines embody the normative commitments and fiduciary requirements of board members and, as stated above, serve as tools which increase the reliability and accountability of board members in accomplishing their duties. According to this view, board routines are not readily amenable to change and cannot be reduced to the immediate material interests of board members or to their network of connections. Therefore, an examination of persistence in the routines of corporate governance allows us to test empirically the implications of viewing boards as normative arenas.

## **Boards as Normative Arenas**

### **Routines of CEO Selection**

The reliance on and persistence of routines of CEO selection provides an important case for testing for the implications of the views of boards as normative arenas. While boards may delegate to CEOs as agents important decisions that occur within their tenure, the selection of new CEOs provides an opportunity for realigning the corporation with the controlling interests of the board of directors. In particular, both agency and managerialist accounts of corporate governance highlight the importance of CEO succession and selection as a mechanism for adapting the organization to environmental and economic contingencies (e.g., Zajac, 1990; Pfeffer and Salancik, 1978). These accounts suggest that CEO selection is unlikely to be routinized, but will reflect instead the interests of those who control the corporation.

The view of boards as normative arenas suggests a very different perspective on CEO selection. Managerial succession is a potentially disruptive activity for organizations (Gouldner, 1954; Carroll, 1984). At the same time, the effects of succession on corporate performance are highly ambiguous, and even the results of academic research on whether it is likely to increase or decrease firm profitability and/ or its survival prospects are equivocal (e.g., Carroll, 1984; Zajac, 1990). Given the potential hazards and ambiguity surrounding the CEO succession and selection process, boards as normative arenas focus on controlling for the accountability and reliability of organizational activities. Boards' reliance on norms and routines of executive succession and selection provides a sense of order in governance decisions, communicates commitment to the corporate mission and programs, and channels political dynamics into acceptable practices and procedures.

**Formal routines of insider selection.** Vancil's (1987) descriptive study of the succession process in large U. S. corporations found evidence for the prevalence of two distinct variants of formal routines of insider CEO selection. The more common form was the existence of a heir apparent in the form of a president and chief operating officer (COO), distinct from the CEO.

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Cannella and Lubatkin (1993), following a managerialist theory interpretation of Vancil's study, found that the designation of a heir apparent decoupled the relationship between firm performance and outsider succession. The second variant was the reliance on a "horse race" among internal competitors for the top spot, usually termed as vice-chairman or executive vice presidents. In both variants the contender(s) for the CEO position were also members of the board of directors, affording on-the-job training for the candidates, and allowing outside board members with the opportunity to gain knowledge and experience regarding the inside contenders.

Both types of insider CEO selection described by Vancil (1987) constitute a formalization of an internal labor market for CEOs, which embeds the routines of executive succession and selection within the formal authority structure of the corporation. This internal market for CEOs is characterized, as are other forms, by promotion from within, the salience of formal job titles and career ladders, and a reliance on and rigidity of formal rules and procedures for decision making (Doeringer and Piore, 1971). Boards will commit themselves to insider CEO candidates when formally designated by both their job title and board membership as either heir apparents (Cannella and Lubatkin, 1993), or as potential contenders for CEO replacement. Job titles of president, chief operating officer and vice chairman, coupled with their designation as inside directors, signal to the internal and external communities that their occupants are potential contenders for the chief executive position. When faced with formalized internal labor markets for CEOs, the logic of appropriateness and rule-following prevalent in boards will lead them to rely on prevailing succession routines and increase the likelihood of insider CEO selection:

**Hypothesis 1:** The formal designation of executives as directors and either as president, chief operating officer, or vice chairman increases the likelihood of insider CEO selection.

**Informal routines of CEO selection.** Boards as normative arenas are influenced both by the organization's formal routines and by its informal norms and procedures. The reliance on and

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persistence of informal routines is influenced by several factors, which are not exclusive to executive succession. First, the adoption of an organizational routine increases its availability in organizational memory and increases the likelihood that it will be invoked as an organizational response in future circumstances (March and Simon, 1958; Walsh and Ungson, 1991; Kelly and Amburgey, 1991). Second, the reliance on and persistence of routines reduces the costs of bargaining and open political conflict in organizations, as routines constitute a form of “truce” (Nelson and Winter, 1982: 107-112), with stable accommodations and quasi-resolution of conflict among the divergent interests in the organization (Cyert and March, 1963). The adoption of routines signals their political viability and appropriateness. Third, routines can become infused with value, as symbols of the organizational mission and as embodiments of institutional purpose (Selznick, 1957), increasing the social identification of the organization's executives.

These cognitive, political, and motivational factors that influence the persistence of informal routines may vary in their strength for routines of either insider and outsider CEO selection. These effects must be understood in light of the broader institutional field of corporate governance in which publicly held corporations operate, where routinization occurs not only at the level of the individual organization but at the organizational field (DiMaggio and Powell, 1983). Insider succession has become the (statistical) norm for U.S. publicly held corporations, particularly for larger companies. While executive succession is a commonplace, firm-level effects are likely to matter as experience with insider and outsider selection will alter board decisions through the routinization of charismatic authority and the separation of the firm's identity from that of its founder(s). Following Amburgey and Miner (1992), I rely on past organizational experience as an indicator of reliance on prevailing routines. The cognitive and political effects of outsider selection experience at the firm level may be greater than for insiders, however, as its adoption both increases its availability in the board's repertoire of activities and signals its political appropriateness within the focal organization. The motivational

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effects of insider CEO selection are likely to be greater, nonetheless, as informal commitments and implicit contracts between the board and top executives parallels the effects of more formal internal labor markets for CEOs. The different cognitive, political, and motivational effects of reliance on routines of insider versus outsider CEO selection on norm formation lead us to examine separately the effects of insider and outsider firm-level succession experience on subsequent CEO selection:

**Hypothesis 2a:** Past reliance on insider selection increases the likelihood of subsequent insider CEO selection.

**Hypothesis 2b:** Past reliance on outsider selection increases the likelihood of subsequent outsider CEO selection.

Note that while views of boards as governing councils could account for the reliance on routines of insider succession based on either the superior performance of insiders as CEOs (Zajac, 1990) or the power of insiders over the board of directors (Cannella and Lubatkin, 1993), they can less directly account for the existence of both insider and outsider selection routines.

## PERSISTENCE OF ROUTINES OF CORPORATE GOVERNANCE

The view of corporate boards as normative arenas emphasizes not only their reliance on routines for decision-making, but the persistence of these routines under diverse set of economic and environmental conditions. This persistence is closely related to the function of the board of directors as controllers of organizational accountability and reliability. Here we must distinguish between theories of bounded rationality (March and Simon, 1958; Cyert and March, 1963), where routines result from a logic of consequences, albeit one limited by cognitive and political constraints on rational decision making, and theories of rule-following and the institutionalization of action (March and Olsen, 1989), where routines convey highly-structured, socially-constructed commitments to the organization's purpose and agenda. The reliability and accountability of the board of directors' commitments to the organization's mission

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entails a high degree of persistence and inertia in the routines of corporate governance (Hannan and Freeman, 1984). To distinguish between accounts of routines that stress their adaptability, and those that emphasize their inertia, I will evaluate how the persistence of routines of CEO selection are affected by firm's performance, age, ownership structure, and by whether CEOs are dismissed or depart prior to normal retirement.

### **Effects of Economic Performance on Persistence and Change**

The effects of economic performance on persistence and change in governance routines provide a strong test of the theory of boards as normative arenas and of the logic of appropriateness and rule-following in corporate governance. An important component of adaptive models of decision-making is their hypothesis that organizations change their programs and routines in response to environmental change and failures of economic performance (March and Simon, 1958; Cyert and March, 1963). But the view of boards as normative arenas implies a different perspective, one where appropriate behavior under periods of economic adversity implies a continuing commitment to the boards' values, norms, beliefs, and routines. In discussing boards' commitment to norms and routines of CEO selection I mean their social identification with the rules and culture of the organization, and not their personal allegiances to individual incumbents of the executive positions. Boards as normative arenas respond to economic adversity, not by evaluating the economic and political consequences of whether they should persist with their past choices or whether they should change, but by determining what is the appropriate thing to do as determined by the prevailing rules and routines of the organization. The reliance on rules and routines under economic adversity implies that board decisions will be governed by their past experience and organizational commitments. This form of board behavior can be characterized as form of a threat-rigidity response (Staw, Sandelands, and Dutton. 1981), rather than failure-induced change (March and Simon, 1958; Cyert and March, 1963). It does not mean, however, that boards will fail to

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act under adversity, but rather that their actions will be guided by an institutional logic, embedded in the culture of the organization and in its rules and routines (Ocasio, 1995).

The theory of boards as normative arenas and theories of adaptive change consistent with the view of boards as governing councils provide contrasting hypotheses regarding persistence and change in routines of CEO selection:

**Hypothesis 3a:** Under economic adversity, corporate boards will rely on formal and informal routines for insider and outsider CEO selection. (Boards as normative arenas).

**Hypothesis 3b:** Economic adversity leads to failure-induced change in the organizational routines of insider versus outsider CEO selection. (Boards as governing councils).

## **Firm Age and the Persistence of Routines**

The view of boards as normative arenas implies that the persistence of governance routines increases with the age of the organization. The mission and purpose of the organization becomes embodied in the normal and rules of the organization, and organizational routines become taken-for-granted and less subject to question or challenge. Hannan and Freeman (1984, 1989) argue that organizational histories generate constraint on structural change by providing legitimate justifications beyond self interest for opposing change, and precluding considerations of alternatives repertoires. Consequently, the reproducibility of organizational routines increases monotonically with age. Furthermore, pressures toward internal consistency and homogeneity of members' perceptions also suggest that organizational norms and routines are likely to increase with age (Aldrich and Auster, 1986). These arguments imply a direct relationship between firm age and the persistence of routines of CEO selection:

**Hypothesis 4:** The persistence of routines of CEO selection increases with firm age.

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### **Structure of Firm Ownership and Routines of CEO Selection**

One possible explanation for the existence and persistence of routines of CEO selection is that they result from agency problems associated with the separation of ownership and control in U.S. corporations. In this interpretation, boards fail to act as governing councils in protection of shareholder interests because neither board members nor management have sufficient stake in the firm's ownership to act vigilantly (Jensen, 1993). According to this view, reliance of norms and routines of decision-making and the inertia of corporate governance results from the lack of the proper incentive structure for board members and managers (Walsh and Seward, 1990).

While prior research in CEO selection has shown that the structure of ownership affects insider vs. outsider CEO succession (Boeker and Goodstein, 1992; Cannella and Lubatkin, 1993), its effects on the reliance on routines remains unexplored. The view of boards as normative arenas suggests that increased firm ownership by management and board members, rather than increasing their reliance on a logic of consequences for board decision, further enhances their commitment to the norms and values of the corporation and to the organization's routines. According to the view of boards as normative arenas, any increased commitment to the corporation resulting from firm ownership is likely to translate instead into increased commitment to the norms and routines of the corporation. Two alternative hypotheses are presented to explore how the structure of ownership affects the reliance on routines of CEO selection:

**Hypothesis 5a:** Increased ownership by management increases reliance on routines of CEO selection. (Boards as normative arenas).

**Hypothesis 5b:** Increased ownership by management decreases reliance on routines of CEO selection. (Boards as governing councils).

### Early CEO Departures and Dismissals and Reliance on CEO Selection Routines

Political or managerialist theorists of corporate governance and executive succession often distinguish between the effects of CEO dismissals and early departures, and other forms of succession (Fredrickson, Hambrick, and Baumrin, 1986). Empirical studies have supported this view, finding that the determinants of CEO succession and selection vary for CEOs facing retirement (i.e., 64 years and older) and younger executives (Puffer and Weintrop, 1991; Cannella and Lubatkin, 1993). This managerialist interpretation implies that the persistence of routines of CEO selection is more likely to hold for the normal process of retirement. In the case of CEO dismissals and early departures, corporate governance is best understood as a sociopolitical process, and the view of boards as governing councils would hold.

Alternatively, the view of boards as normative arenas implies that routines of CEO selection apply to cases of early CEO departures as well as to retirements. The norms and repertoires of routines that are invoked may vary under the two sets of circumstances, however. Note that the logic of appropriateness and rule-following that underlies the theory of boards as normative arenas does not imply that these norms and routines are invariant to the external and internal contingencies faced by the organization. Different rules and routines may be applied under different circumstances. For example, a different set of norms may be appropriate for CEO dismissals and other for CEO retirements. In the former case, boards may increase their reliance on routines of outsider succession. In the latter case, they are more likely to rely on norms of insider succession. According to the view of boards as normative arenas, norms and routines are likely to affect board decision making under either circumstance.

To distinguish whether the view of boards as normative arenas applies only to cases of retirement, or more generally, I offer the following set of alternative hypotheses:

**Hypothesis 6a:** Early CEO departures increases reliance on routines of outsider selection and decreases reliance on routines of insider selection. (Boards as normative arenas).

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**Hypothesis 6b:** Early CEO departures decreases reliance on routines of both insider and outsider CEO selection. (Boards as governing councils).

### **METHOD**

**Sample.** A random sample of 120 U.S. industrial corporations or 4.45 percent of the total population listed in the Moody's Industrial Directory for 1980 was selected for the analysis. This sample includes publicly held companies listed in the New York, American, or regional stock exchanges and contains a broad representation of firm size and ownership structure. The unit of observation is the company year, covering the years 1960-1990. Given lack of financial and ownership data for fourteen of the companies in the original sample, the sample was reduced to 108 firms. Not all companies had data for the complete period. Many were founded and/ or became publicly held after 1960. Many others merged, became bankrupt, went private, or otherwise ceased to be publicly held companies during the decade of the 1980s. The methodology treats any spells ending in bankruptcy, acquisition, and change to private ownership as right-censored at that point. This implies that the effects being measured relate exclusively to normal forms of succession within the current ownership of the firm. The total sample used included 2,287 company-years of data.

The sample was selected as of 1980 to permit corporations founded since 1960, including high-technology companies, to become part of the sample. This creates some potential for sample selection bias, as firms that disappeared between 1960 and 1980 were excluded from the sample. Sampling as of 1960, however, would have excluded newer firms from the sample, which then would have been less representative of firms in 1990. Sampling in 1980 was selected as a compromise solution that would both reduce sample selection bias and produce a representative sample of industrial firms in 1990.

**Independent Variables and CEO Selection Events.**

## Boards as Normative Arenas

**CEO succession and selection.** CEO succession events were coded from Standard and Poor's Directory of Corporations, Officers, and Directors based on changes in the names of the relevant officers. A total of 216 succession events occurred in the sample. Insider vs. outsider CEO selection. Following Cannella and Lubatkin (1993), CEOs were coded as insiders if they had been employees of the company for at least two years prior to becoming CEO; otherwise they were classified as outsiders. This procedure was undertaken because, in some instances, outsiders are appointed to the corporation for a short period of time in preparation for becoming CEOs. Data from Standard and Poor's Directory of Corporations, Officers, and Directors, was supplemented by proxy statements, 10Ks, annual reports, and Who's Who in Industry and Finance to verify prior employment history. Outside members of the board of directors who were appointed CEOs were classified as outsiders. A total of 157 insider succession events and 59 outsider successions were recorded.

**Routines of CEO Selection.** Formal ILM for CEOs. The existence of formal routines, or internal labor markets, for insider CEO succession were coded based on the job titles of inside directors, other than the CEO. A formal ILM was recorded when a president, chief operating officer, or vice chairman was listed as both an officer of the company and a member of the board in Standard and Poor's Directory of Corporations, Officers, and Directors. Formal ILMs for insider succession were in place in 65.4 % of the CEO-years in the sample.

Past CEO Succession Routines. I measure past reliance on informal CEO selection routines by examining whether the firm has relied exclusively in the past (since 1950) on either insiders or outsiders, or whether it has experienced both. The history of all CEOs in the company since 1950 was recorded from Standard and Poor's Directory of Corporations, Officers, and Directors. CEOs of new companies were classified as founders. Others were classified as insiders or outsiders, using the coding scheme and data sources described above. Four mutually exclusive categories of past succession experience were coded: None, when the current CEO was the founder, Past insiders, when all CEOs since 1950, other than the founder,

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were insiders, Past outsiders, when all CEOs since 1950, other than the founder, were outsiders, and Both, when CEOs since 1950 included both insiders and outsiders. In the sample 52.0% of the company years were classified as Past insiders, 12.6% as Past outsiders, 15.3% as Both insiders and outsiders, and 20.1% as None. The test of the hypotheses on informal succession routines will focus on the effects of Past insider and Past outsider, and its interaction effects with performance, firm age, ownership structure, and CEO age.

**Moderators of Persistence of Routines.** Performance. Return on assets (ROA), adjusted for industry average, obtained from COMPUSTAT, was used as an economic performance measure, following past studies of CEO succession and selection and Gibbons and Murphy (1990) finding that relative ROA affects CEO compensation. The correlation between adjusted and unadjusted ROA was .94 and the results do not change materially if unadjusted ROA is used as a measure of performance. Data on ROA were lagged one year. Two and five year averages were also estimated, but a one year lag provided the best results.

Firm age. The firm age was calculated from the date given in Standard and Poor's Directory of Corporations, Officers, and Directors of the year of the firm's initial founding or incorporation.

Ownership. Data on firm ownership was obtained from Value Line Investment Survey and from corporate proxy statements. Early CEO Departures. Following Puffer and Weintrop (1991), I classify early CEO departures as those where the CEO was 63 years old or under. Data on the CEO's age was obtained from Standard and Poor's Directory of Corporations, Officers, and Directors, proxy statements, 10Ks, and Who's Who in Industry and Finance, and the Wall Street Journal. Although it would have been preferable theoretically to distinguish between "voluntary" departures and "dismissals", Wall Street Journal and other published sources for CEO departure are either incomplete or unreliable for a large number of firms in the sample, particularly for smaller companies.

## **Control Variables**

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I included control variables for firm size, as well as characteristics of the CEO, (tenure, age, and year of hire), and of the board of directors (separate board chairman and proportion of outside directors). The selection of control variables was based on the findings of recent managerialist interpretations of insider versus outsider CEO selection (Boeker and Goodstein, 1992; Cannella and Lubatkin, 1993). All control variables, except employment data, were recorded at the beginning of the year. Data on firm size was obtained from COMPUSTAT. All other control variables were obtained from Standard and Poor's Directory of Corporations, Officers, and Directors, supplemented by data from proxy statements, 10Ks, annual reports, and Who's Who in Industry and Finance. Tenure measured the number of years the incumbent has served as CEO. Tenure was used as the duration measure in all models estimated. CEOs appointed prior to 1960 are subject to left-truncation, as we know when the tenure spells began, but the full information on all variables prior to 1960 was not recorded. For firms in the sample, all CEO-years were included, beginning in 1960, but the tenure prior to 1960 was excluded. To address the problem of left-truncation, data on prior CEO tenure were recorded for all incumbents in 1960, or for the first incumbent in the sample for each company, and only the remainder of the CEO's tenure was included in the sample. This procedure reduces the bias in the estimates and in the case of the piecewise-exponential model used, leads to consistent estimates (Tuma and Hannan, 1984; Guo, 1993). The results of this procedure are conditional on CEOs having survived to 1960.

Size was measured as the logarithm of the number of employees (in thousands). The expectation is that larger firms will have a greater degree of insider CEO selection.. Age60 takes the value of zero if the CEO is 60 years old or under, and Age - 60, otherwise, where Age equals the current age of the CEO. The Age60 variable assumes that up to the sixtieth year of age, age has no effect on CEO succession or selection, but that it has increasing effects for each year afterward. Age60 is expected to have a positive effect on the rate of insider CEO succession. The effects of age on outsider CEO selection. Year of hire measured the year the

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CEO was hired (minus 1900), and was intended to capture historical trends in the rate of CEO succession. A positive trend was expected, taking into account increased pressures on CEOs during the 1960-1990 period studied, particularly for outsider succession. This variable assumes that CEOs are affected by changing norms and expectations about CEO succession that were prevalent during the beginning of their tenure and that these rules are set for the remainder of their tenure. This variable provides a much better fit than an alternative measure of time trend, which assumes that changing norms affect new and incumbent CEOs equally. Proportion of outside directors measured the number of outside board members divided by the total number of directors. Chairman is a dummy variable that takes the value of 1 when the chairman of the board of directors differs from the CEO, and 0, otherwise.

**Sample statistics.** Table 1 presents the sample means, standard deviations, and the Pearson correlation coefficients for the variables used in the analysis. The unit of observation is the company-year.

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Insert Table 1 about here

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## Modeling Procedure

I tested the hypotheses by specifying continuous-time, event history analysis of the competing risks of insider versus outsider CEO selection. This competing risk model estimates the transition rates to two mutually exclusive events, insider succession and outsider succession. The competing risk methodology allows for estimating the separate mechanisms that yield insider and outsider selection and is consistent with the underlying assumption of this paper that the two events are the result of highly routinized processes with different underlying causes and trajectories. A chi-square contrast of the competing risk model with the pooled model of CEO succession supports this contention, and is available from the author. The use of event history analysis of CEO selection is preferred to the more common method of sampling only for the year of turnover, which is subject to sample selection bias and implicitly assumes

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equilibrium in the CEO selection process (Tuma and Hannan, 1984). The models are estimated using maximum likelihood with the software package TDA (Rohwer, 1991). TDA allows estimation of models with time-varying covariates and takes right-censoring into account by using the information provided by the cumulative survival time of censored spells (Tuma and Hannan, 1984).

**Functional form.** The use of event history analysis requires that specification of the functional forms for the transition rates estimated. The selection of functional form must also account for left-truncation in the sample, as CEOs appointed prior to 1960 are part of the sample. To achieve consistent estimates with left-truncated data, I use a piecewise-exponential model (Guo, 1993). The hazard rates  $r(t)$  of CEO succession are defined under the two competing risks of insider and outsider succession  $r(t)_1$  and  $r(t)_2$ , respectively, as follows:

**Piecewise- exponential model:**

$$r(t)_1 = \exp (\alpha_{11} + \dots + \alpha_{p1} + \beta_1 X_1 + \dots + \beta_n X_n).$$

$$r(t)_2 = \exp (\alpha_{12} + \dots + \alpha_{p2} + \beta_1 Z_1 + \dots + \beta_m Z_m).$$

Note that the independent variables for the competing risks of insider and outsider succession  $X$  and  $Z$ , respectively, are not restricted to be the same. In selecting the time periods  $\alpha_{ip}$  for the piecewise exponential I tried several alternatives. The results presented include five time periods for both insider and outsider succession: 0 - 2 years, 2 - 7 years, 7 - 12 years, 12- 17 years, and 17 years and above. There are statistically significant differences between the first three periods, but the fourth and fifth are not statistically significantly different from the third.

**Alternative models estimated.** I first estimate a baseline model for comparison purposes including all control variables, the main effects of the moderating variables of firm age, performance (ROA), ownership structure, and an interaction effect between ROA and age 64. This last covariate controls for the findings of past studies where performance had limited effect on succession for CEOs facing retirement. To test Hypotheses 1 and 2, I then estimate a model

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that includes the main effects of formal and informal routines of CEO selection. To limit the effects of multicollinearity in evaluating the effects of moderators of persistence, I estimate separate models for the effects of performance (Hypothesis 3), firm age (Hypothesis 4), and ownership structure (Hypothesis 5). In estimating these moderators, I include separate interaction effects with the measures of Formal ILMs, Prior insider, Prior outsider, and Both (insider and outsider) succession experience. (No succession experience is the omitted category). A full model that includes the combined effects of those variable found to be statistically significant at the .10 level is also estimated. Finally, to estimate whether the effects of CEO selection routines apply only to retirements, I estimate the model for the subsample of CEOs 63 years old and under, and compare the results to the full sample.

## RESULTS

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Insert Table 2 about here

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**Formal and Informal Routines of CEO Selection.** Table 2 presents the results of the competing risks of insider versus outsider CEO selection and provides tests for Hypothesis 1 -5. Model 1 shows the baseline model for comparison purposes. Model 2 presents the effects of formal and informal routines of CEO selection. The combined results of Model 2, with a chi-square contrast of 39.7 with the baseline model, are statistically significant at the .001 level. They sustain the model of board decision-making as normative arenas, governed by the rules embodied in firm's formal and informal routines.

The findings strongly support Hypothesis 1 that formal routines of insider CEO selection, in the form of ILMs for CEOs, increase the board's selection of insiders as CEOs. These effects are significant at the .001 level. Hypotheses 2a and 2b are supported with past routines of insider selection increasing subsequent insiders, statistically significant at the .05 level, and past outsider routines increasing outsider selection, significant at the .01 level. Informal routines of

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both insider and outsider selection affect board decision on CEO selection, with the effects stronger in size and statistical significance for routines of outsider selection than for insiders. Note that if the firm has had experience with both insiders and outsiders as CEOs, this increases the rate of both subsequent insider and outsider succession. These results are weaker, however, than in the case of exclusive reliance on routines of either insiders or outsiders. The findings suggest that both cognitive and political effects of CEO selection routines affect board decisions, as past experience with CEO selection routines increases their subsequent utilization and political viability and appropriateness, but that these effects are greater when either insider or outsider selection dominates.

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Insert Figure 1 about here

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Figure 1 presents graphically the effects of the formal ILMs for CEOs and past CEO selection routines on the competing risks of insider versus outsider CEO selection. The transition rates are estimated from Model 2, with all the control variables estimated at sample means. The pattern of findings show that both formal and informal routines of CEO selection have large statistically significant effects on board decision. The effects of formal and informal routines are independent of each other. (In a separate analysis, not presented here but available from the author, the interaction effects between the formal and informal routines of CEO selection were not found to be statistically significant). The most relevant findings are the differences between the pairwise comparisons of insider versus CEO selection for each of the eight combinations of formal and informal selection routines. First note that in the case of no routines (i.e., founders without internal ILMs) the transition rates for insider and outsider selection are approximately equal (.021 vs. .018, for insiders and outsiders, respectively). But with an ILM but no succession experience, the rate of insider selection is almost double that of outsiders (.052 vs. .028). Past insider selection with an ILM is the condition most favorable to insider selection (.109 vs. .040). Past outsider selection without an ILM is most favorable to outsiders (.027 vs.

.080). In the case of both insider and outsider experience, the presence or absence of an ILM for CEOs alter the dominance of subsequent insiders or outsiders: without the ILM, outsiders are more likely (.040 vs. .062), with the rate of insiders is higher (.099 vs. .094).

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Insert Figures 2 and 3 about here

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**Effects of Performance on the Persistence of Routines.** Model 3 analyzes the effects of performance on persistence of the formal and informal routines of CEO selection. The chi-square contrast between Models 3 and 2 is 19.21, with 8 degrees of freedom, statistically significant at the .05 level. The results are consistent with Hypothesis 3a, that under economic adversity boards rely on dominant routines for CEO selection and provide no support for Hypothesis 3b, on failure-induced change in existing routines. The findings show that formal and informal routines are likely to persist under both positive and negative performance outcomes (Milliken and Lant, 1991). In interpreting these effects one must account for both the main effects of ROA and its interaction effects with the formal and informal CEO selection routines. First note that the main effect of ROA (-.088, which is the full effect in the case of no routines) is negative and statistically significant at the .01 level for outsider selection, and positive but not significant for insider selection. With no prior experience with or formal mechanisms for succession, firms facing economic adversity will more likely choose outsiders rather than insiders, consistent with the existence of a generalized norm for outsider succession under poor performance. Formal ILM are invariant to performance effects, with small and statistically insignificant interaction effects with both insider and outsider selection.

The effects of performance on informal CEO selection routines, while not unequivocal, show little evidence that performance triggers a failure-induced change in the application of dominant routines and are more consistent with a view that boards rely on dominant responses for their CEO selection decisions. The interaction effects of past insider and ROA, negative for insider

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and positive for outsiders, although not significant, are inconsistent with adaptive change in insider selection routines. The interaction effects of past outsider and ROA is negative, but not significant for insiders, and positive and significant at the .10 level for outsiders, yet when added to the main effect yields a negative effect, implying persistence with outsider routines under economic adversity. The combined main and interaction effects are best understood graphically and are shown for past insider and past outsider selection routines in Figures 2 and 3, respectively. Figure 2 shows that economic adversity increases both insider and outsider CEO selection and that when ROA is 30 percentage points below the industry average, boards are more likely to persist with insider selection. Figure 3 shows that for firms with dominant routines of outsider selection, poor performance is more likely to increase persistence with outsider selection, consistent with Hypothesis 3a.

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Insert Figure 4 about here

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**Effects of Firm Age on Persistence of Routines.** Model 4 shows the analysis of firm age on the persistence of CEO selection routines. The results provide limited support for increasing persistence of CEO selection routines for the case of past insiders (Hypothesis 4), but no support for the other cases. The chi-square contrast between Models 4 and 2 is 10.0, with 8 degrees of freedom, which is not statistically significant. The only interaction term that is statistically significant is past insider, at the .10 level. (Note that the same term becomes significant at the .05 level in Model 6). The mediating effect of firm age on the persistence of insider selection routines, shown in Figure 4, indicates that as the firm grows older its commitment to insider succession increases. This increase over time is consistent with the political and motivational effects of insider selection routines. The dominance of insider selection becomes increasingly embedded in the firm's political coalition and institutionalized within the social structure and mission of the organization (Selznick, 1957). The dominance of outsider routines is less likely to become institutionalized over time, lacking internal constituents

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to support its perpetuation. The same may be true of formal routines of selection. While the interaction effects of age and formal ILM are not statistically significant, the direction of the effects provide some evidence that the effects of formal routines are larger for newer firms. This may result both because they are more salient when there is no realized succession experience to guide board decision-making and because for rules to become institutionalized over time it is not sufficient that they be part of the formal procedures, but it is also necessary that they be consistently practiced.

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Insert Figure 5 about here

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**Effects of Board Ownership.** Model 5 presents the results of insider ownership on the adoption of routines of CEO selection. The chi-square contrast between Models 5 and 2 is 20.0, with 8 degrees of freedom, significant at the .05 level. The results support Hypothesis 5a, on increased reliance of inside selection routines for insider ownership, and no support for hypothesis 5b. The interaction effects of insider ownership and insider selection routines is positive, albeit not statistically significant, for insider selection and negative and statistically significant at the .10 level for outsider selection (This result becomes statistically significant at the .01 level in Model 6). Also note that the interaction of combined insider and outsider selection experience with insider ownership has a positive effect on insider selection, significant at the .01 level. The results do not support Jensen (1993) contention that cultural persistence in corporate governance results from the lack of ownership incentives by board members and top executives. On the contrary, as shown in Figure 5, increased ownership by managers and board members increases the proportion of insiders selected as CEOs. Note that this comes about through a decrease in the rate of outsider selection, while the rate of insider selection is invariant to insider ownership. Thus insider ownership decreases the combined rate of insider and outsider CEO selection, thus increasing the relative reliance on routines of insider

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selection, a set of findings not consistent with agency theory. No effects of insider ownership were found on reliance on either formal ILMs or routines of outsider selection.

**Combined Model.** Model 6 combines the statistically significant effects of Models 3-5. The chi-square contrast with Model 2 is 40.4 with 10 degrees of freedom, statistically significant at the .01 level. When a particular interaction term was found to be significant I include its effects on both insider and outsider selection, even if both terms were not significant. Note that the results are substantially equivalent to those found in Models 2-5, except that the statistical significance is strengthened. This is due to the reduction in multicollinearity that results from omitting interaction terms that were not statistically significant. Note that as in Model 4, the main effect of past insider is small, negative, but not significant, while as stated earlier, the interaction effect of age and past insiders is now significant at the .05 level. This suggests that the reliance and persistence on routines of insider selection are strongly conditioned on the age of the corporation. The main effects of formal ILMs and outsider selection routines are positive and significant, supporting Hypothesis 1 and 2b, respectively.

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Insert Table 3 about here

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**Effects of Early CEO Departures.** Table 3 presents a comparison of Models 2 and 6 for the full sample, from Table 3, with the analogous Models 2a and 6a, for the subsample of CEOs 63 years old and under. The results support Hypothesis 6a that early CEO departures increases reliance on informal routines of outsider succession and decreases reliance on routines of insider succession. Note that the coefficient of past insiders is positive for both insider and outsider CEO selection, and larger in the latter, although not significant in either case. For past outsider selection, the transition rate to insiders is small, negative, and not significant in Model 2a, but large, positive, and significant at the .01 level for subsequent outsiders. The transition rate on combined selection experience on outsider succession is also positive, and significant at the .05 level. The size of these coefficients are also larger than for the full sample in Model 2.

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This suggests that in the case of early CEO departures, whether by dismissal or voluntary, routines of past outsider selection have a large and significant effect on board decisions to select outsiders. Also note from Model 2a that formal ILMs increase insider CEO selection, as in the full sample. Model 6a provides results similar to those of Model 6. The interaction effects of firm age and past insider are similar as before, albeit significant only at the .10 level.

**Control variables.** The effects of the control variables are unremarkable with one exception, the effects of proportion of outside directors. Tenure. Both insider and outsider succession were found to increase with tenure, although the effect is nonmonotonic for outsider selection or in the case of CEOs 63 years and under. Performance had a negative effect and significant effect on both insider and outsider succession. Note however, that without controlling for past succession experience, the size of the effects is similar for both, when the CEO's age is less than 63. The effects of performance on CEO selection are therefore strongly mediated by past succession experience, as well as by CEO age. Age64\*ROA was positive and statistically significant for insider and negative but not significant for outsiders. This confirms earlier findings that the effects of performance on succession differs for CEOs facing retirement (Cannella and Lubatkin, 1993). Year of hire was positive and significant for both insider and outsider selection, although larger for the latter, suggesting both a general increase in CEO succession and increasing reliance over more recent CEO cohorts on the selection of outsiders as successors. Chairman was positive for both insider and outsider selection and of similar magnitude. It was statistically significant for insider selection in all models, but the significance was not robust across models for outsider selection. This suggests, consistent with the findings of Cannella and Lubatkin (1993), that while having a separate Chairman increases CEO succession, it has limited effect on the selection of insiders versus outsiders. Size Large firm size increased insider selection and decreased outsider selection. Firm age. The effects of firm age were mediated by past succession experience with no consistently significant main effect. Proportion of insider ownership. No statistically significant effects of insider ownership were

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found. Boeker and Goodstein (1992) also failed to find statistically significant effects, but they did find effect for the concentration of insider ownership, which is not measured here.

Proportion outside ownership. The proportion of outside ownership had a positive main effect on outsider selection. Firms with large outside ownership holdings are more likely to bring an outsider, possibly from the firm or organization that owns the stock, to lead the corporation.

The main effects of proportion of outside directors were not statistically significant, contrary to the findings of Boeker and Goodstein (1992). One possible explanation for the disparate findings in the two studies may be the different populations sample. Boeker and Goodstein sampled both privately-held and publicly held semiconductor firms in Silicon Valley from 1969-1989. Both for the privately held firms and for smaller publicly held firms, outsider representation in their sample may more be more likely to represent ties to venture capitalists and other forms of resource dependencies (Pfeffer and Salancik, 1978). Their findings were interpreted and are more consistent with a managerialist model of executive succession and selection. In both privately-held firms and those with more activists board members, the political model of boards as governing councils is more likely to be applicable. This is less likely to be the case across the population studied here of all publicly held industrial firms from 1960-1990, where the the political structure of boards may have limited effect on CEO selection, and the view of board as normative arenas may be more applicable.

## DISCUSSION AND CONCLUSIONS

The general pattern of results provides strong empirical support for directors' reliance on formal and informal routines of CEO selection and for the view of corporate boards as normative arenas. Both the adoption of internal labor markets for new CEOs and the past reliance on informal routines of insider and outsider selection had large, statistically significant effects on the competing risks of insider versus outsider CEO succession. The general findings cannot be easily derived from a model of adaptive behavior by board members which follow a logic of

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consequences in their decision making, nor from existing theories of boards as governing councils, which mobilize resources in support of contending interests. The results are more consistent with the theory that boards are constituted as normative arenas, which follow a logic of appropriateness and rule-following, as embodied in precedents, norms, and routines.

**Routines of CEO Selection.** At one level, this paper applies and extends both old ideas from classic theories about organizational routines (March and Simon, 1958; Cyert and March, 1963) and more recent quantitative empirical research on their effects (Kelly and Amburgey, 1991; Amburgey and Miner, 1992) to a new area of application, the study of corporate governance and CEO selection. The paper extends this line of research by explicitly testing how the effects of persistence of routines is mediated by economic performance and the structure of ownership, and by distinguishing between formal and informal routines. The results do not support the early March-Simon-Cyert formulation of failure-induced change in organizational routines, but are more consistent with the view that responses to economic adversity rely on dominant organizational routines (Staw, Sandelands, and Dutton, 1981; Ocasio, 1995). Organizations change in response to economic adversity, but in ways that are consistent with dominant patterns and rules of behavior. These results support Milliken and Lant's (1991) view that firms will persist with their strategies and routines, independently of whether recent economic performance is good or whether it is poor. The results also show that, contrary to agency theory interpretations, the reliance on organizational routines increases, rather than decreases, with inside ownership by board members and top executives.

The effects of organizational age on persistence of formal and informal routines contributes to our understanding of how organizational inertia increases with firm age. Formalization was found to be neither necessary nor sufficient to explain the persistence of routines with age. The different effects for dominant routines of insider versus outsider CEO selection suggests that internal political support for an activity may be a necessary condition to guarantee its institutionalization as firms grow older (Selznick, 1957). If a routine is at odds with the interests

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of internal groups, as in the case of routines of outsider selections, its persistence is unlikely to increase with age. This suggests that the institutionalization of action requires political support as well as historical precedent.

The formal routines of insider CEO selection were found to strongly increase insider succession, and these effects were relatively invariant to the level of economic performance, firm age, ownership structure, or whether succession occurred under retirement or early CEO departures. The formal internal labor markets for CEOs imply both political and normative commitments to insider succession, and boards were much more likely than not to honor these commitments, independent of the circumstances facing the firm or the CEO succession process.

**Boards as Normative Arenas.** At another level, this paper develops a new theoretical perspective on corporate governance, that of boards of directors as normative arenas. The theory integrates the work of March and Olsen (1989) on the institutionalization of action and the logic of appropriateness in political institutions with that of White (1992) on alternative forms of discipline in social structures. I reinterpret existing theories of corporate governance as variants of one form of discipline identified by White, that of governing council. I argue that corporate governance in U.S. industrial terms is better understood as following another form of discipline, that of normative arenas. Board decision process constitute a form of peer review and evaluation, rather than an instrumental monitoring of corporate activities to protect one or another interest. This normative accounting for board decision making is strongly supported by the empirical results of this paper. The theory also explains previous descriptions of norms of board behavior by participants and observers, which were at odds with existing theories.

The view of boards as normative arenas implies that board decisions reflect socially constructed rules of behavior, which cannot be reduced to either the interests of the participants nor to adaptively, rational behavior driven by a calculus of consequences. As described above,

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the effects of performance and insider ownership on persistence of CEO selection norms suggest that agency interpretations and bounded rationality cannot, at least by themselves, explain the reliance on and persistence of routines of corporate governance. While there is some evidence that routines of insider selection are sustained by managerial interests, the general pattern of results also suggests that managerial interests alone cannot explain the routines of corporate governance. Note that there is evidence both for the existence of a generalized norm of outsider succession under adversity, and for increased reliance on routines of outsider succession for CEOs departing prior to retirement age. Neither effect is consistent with a purely political explanation of CEO selection routines. Furthermore, I also conducted additional analysis, not reported here, of the mediating effects of the political structure of the board as measured by a separate chairman, the proportion of outside directors, and board size, on routine persistence. I found that none of these measures of managerial control over the board of directors had a noticeable nor a statistically significant effect on the utilization of either formal or informal CEO selection routines. This strongly suggests that the operation of corporate governance routines cannot be reduced to an explanation based on the view of boards as “pawns” of management (Lorsch, 1989).

The theory of boards as normative arenas highlights the commitments and identification of boards of directors with the mission, purpose, and social identification of the corporation (Selznick, 1957). Legal responsibilities of and normative commitments by board members are reflected in board members abiding by the institutional embodiment of purpose in the firm’s norms and routine. At the same time, this routine-bound character of board decision making does not imply that routines are always consistently applied nor that the process is purely apolitical and conflict free. The effects of routines in the transition rate models strongly support the view that routines matter, and matter greatly in board decisions, but they also show that their application is far from inevitable. The different moderating effects of age, performance, inside ownership, and early CEO departures for insider and outsider selection routines, imply

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that norms and historical precedents serve to establish the rules of the game in corporate politics, both as vehicles for and constraints on managerial power. The reliance on norms and routines of CEO selection and corporate governance also suggests that political maneuverings in organizations are unlikely to be directly expressed nor mobilized within the board of directors. This is consistent with a view of managerial power and political dynamics driven by emergent power struggles rather than fixed political coalitions and where overt efforts at social influence, managerial entrenchment, and the institutionalization of executive power are not likely to be effective (Ocasio, 1994). Political struggles and maneuverings occur not as part of the formal board process, but are driven by inside participants and hidden behind the bureaucratic ethos and rhetoric that predominates in U.S. corporations (Jackall, 1988).

The routinization of the CEO selection process by boards as normative arenas is closely tied to the routinization of charisma and depersonalization of executive power. This process embodies and legitimizes the authority of the corporation in its rules and procedures rather than in power and control by specific individuals (Weber 1922], 1978). But unlike the pure form of Weberian bureaucracy, boards as normative arenas rely on historical precedents as well as formal procedures to define appropriate behavior and to guide their decisions.

Normative arenas and governing councils can be considered as ideal types, rather than as exclusive descriptions of all forms of board behavior. The two forms of discipline can be understood as different identities that boards of directors take when facing different internal or external contingencies (White, 1992). March and Olsen (1976) argued that choice processes are occasions for a number of different things including: (1) fulfilling role-commitments and executing standard operating procedures; (2) defining truth and virtue; (3) exercising relationships of trust, antagonisms, power, or status; and, (4) expressing self-interests and group interests. The first two conditions are characteristic of normative arenas, the last two of governing councils. In board decision making, like in other decision processes, different

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orientations may prevail depending on the problems and solutions being considered, and on the structure of participation (Cohen, March, and Olsen, 1972; March and Olsen, 1976).

Further theoretical development and empirical research are required to explain under what conditions is the model of boards as normative arenas applicable, and under what conditions do governing councils, or other forms of discipline, if any, apply (White, 1992). White's statement that "identities are triggered by contingencies" (1992: 5) is evocative of the emergent process that may lead certain types of boards, under certain conditions to adopt one or another identity and form of discipline. Unfortunately, no testable propositions can be readily derived from White's theoretical framework on what these contingencies may be or what effects they are likely to have. In presenting the difference between the findings of this study and those of Boeker and Goodstein (1992) on the effects of proportion of outside directors on CEO selection, I suggested that boards of privately held or young semiconductor firms in Silicon Valley, many with substantial reliance on venture capital, may be more likely to operate as governing councils than is true in general for U.S. industrial corporations. This suggests that further research is necessary on whether and how the separation of ownership and control may have led to a transformation of the functions of boards of directors from their traditional role as governing councils to that of normative arenas. The discrepant findings could also suggest that the view of boards as governing councils may be more applicable for new and emerging industries, or in cases where resource dependencies on external interests are high.

**Inertia and the "Failure" of Corporate Governance.** I began this paper by invoking Jensen's (1993) presidential address to the American Finance Association, and his lament regarding the inertia in corporate governance and the failure of corporate boards to foster adaptation in U.S. industrial corporations. The view of boards as normative arenas provides a coherent theoretical rationale for the observed inertia in corporate governance, and one that is supported by empirical evidence on CEO selection. But this view also suggests that board effectiveness needs to be reevaluated according to different criteria. Agency theorists, led by Jensen, have

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evaluated U.S. corporate boards as mechanisms of instrumental control and have found them to be deficient. This paper suggests that the predominant, albeit latent, function of boards of directors is that of normative control, rather than instrumental control: to guarantee reliability and accountability in the rules of corporate behavior. Board responsibilities are defined, not by their independent evaluation of the consequences of corporate actions, but by their construction and reproduction of the firm's rules and procedures in terms of their appropriateness. In a world that values accountability and reliability, and when environments are relatively stable, the persistence of routines of corporate governance may prove to be adaptive (Hannan and Freeman, 1984). The peer review function of boards in providing stability and enforcement of fiduciary duties and normative commitments is, under such circumstances, highly desirable.

Another larger question remains, however, in evaluating board effectiveness. Has the world changed in ways that the reliability and accountability that results from the inertia in corporate governance become less attractive? Are the frequency and variability of environmental change increasing such that organizational stability is less desirable? There is increasing dissatisfaction with the bureaucratic model of organization, and with the benefits of standardization and routinization in corporate strategies and routines associated with this model. Whether boards of directors have failed or not, is closely tied to our evaluation of whether bureaucracies have failed or not, and whether they need to be supplanted by other organizational forms. I will not, of course, pretend to answer this question in this paper. I will suggest, however, that the current institutions and functions of corporate governance in U.S. industrial corporations are closely tied to the bureaucratic model of organization, as the role of boards as normative arenas is critical to the legitimate authority of corporate bureaucracies and to their maintenance and sustainability.

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Table 1

**Means, Standard Deviations, and Pearson Correlation Coefficients\***

Variable	Means	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Insider Selection	.070	.254															
2. Outsider Selection	.025	.156	-.044														
3. Tenure	.588	10.8	.019	-.022													
4. ROA	17.9	7.22	.001	-.123	.057												
5. Age60	4.15	5.03	.133	.017	.515	.021											
6. Firm Age	39.7	23.0	.054	-.025	-.062	-.022	.116										
7. Size	.521	1.73	.077	-.098	-.098	.122	-.074	.183									
8. Year of Hire	64.5	13.8	-.003	.048	-.834	-.077	-.453	.156	.068								
9. Chairman	.153	.392	.004	.016	-.216	-.067	-.134	.062	.054	.214							
10. Prop. Outside Dir.	.588	.182	-.007	.009	-.281	-.082	-.138	.214	.184	.337	-.047						
11. Inside Ownership	17.9	19.6	-.004	-.003	.154	-.027	.157	.052	-.172	-.098	.050	-.213					
12. Outside Ownership	4.15	10.7	-.022	.103	-.023	-.073	-.016	-.082	-.224	.133	.073	.116	-.084				
13. Formal ILM	.654	.476	.116	-.013	.127	.091	.111	.051	.268	-.122	-.161	-.118	-.048	-.079			
14. Past Insiders	.520	.500	.080	-.071	-.275	.093	-.054	.264	.354	.204	.038	.062	-.098	-.131	.130		
15. Past Outsiders	.126	.332	-.047	.075	.000	-.068	.002	-.039	-.258	-.021	-.075	.042	.068	-.021	-.145	-.396	
16. Combined In. & Out.	.153	.361	-.011	.056	-.207	-.145	-.138	.098	.009	.288	.135	.265	-.113	.133	-.067	-.444	-.162

\* The approximate cutoff for significance at the .05 level applies to correlations greater than .035 or less than -.035.

Table 2

Maximum Likelihood Estimates of the Competing Risks of Insider versus Outsider CEO Selection, Piecewise-exponential models\*

Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Insider	Outsider	Insider	Outsider	Insider	Outsider	Insider	Outsider	Insider	Outsider	Insider	Outsider
0 to 2 years	-6.195*** (801)	-8.302*** (1.459)	-7.708*** (823)	-8.439*** (1.544)	-7.171*** (832)	-9.141*** (1.612)	-6.545*** (1.861)	-8.860*** (1.861)	-6.979*** (902)	-9.244*** (1.684)	-6.450*** (862)	-9.600*** (1.626)
2 to 7 years	-5.324*** (0.732)	-6.682*** (1.333)	-6.168*** (0.756)	-6.683*** (1.409)	-6.249*** (0.765)	-7.107*** (1.456)	-5.657*** (0.966)	-7.018*** (1.534)	-6.062*** (0.836)	-7.353*** (1.534)	-5.527*** (0.798)	-7.352*** (1.459)
7 to 12 years	-4.841*** (0.693)	-6.340*** (1.250)	-5.782*** (0.730)	-6.246*** (1.356)	-5.857*** (0.739)	-6.644*** (1.397)	-5.278*** (0.937)	-6.549*** (1.672)	-5.697*** (0.811)	-6.867*** (1.479)	-5.124*** (0.773)	-6.839*** (1.398)
12 to 17 years	-4.630*** (0.551)	-6.224*** (1.212)	-5.590*** (0.728)	-6.054*** (1.323)	-5.673*** (0.737)	-6.482*** (1.369)	-5.096*** (0.925)	-6.348*** (1.636)	-5.506*** (0.803)	-6.604*** (1.426)	-4.960*** (0.766)	-6.571*** (1.367)
17 years or over	-4.490*** (0.551)	-6.404*** (1.045)	-5.484*** (0.608)	-6.289*** (1.165)	-5.547*** (0.615)	-6.629*** (1.198)	-4.924*** (0.857)	-6.745*** (1.596)	-5.386*** (0.596)	-6.812*** (1.291)	-4.818*** (0.660)	-6.690*** (1.192)
ROA	-0.020* (0.10)	-0.025*** (0.008)	-0.023*** (0.008)	-0.024*** (0.008)	0.006 (0.050)	-0.088*** (0.037)	-0.024*** (0.011)	-0.025*** (0.009)	-0.024*** (0.011)	-0.023*** (0.008)	-0.035** (0.016)	-0.085*** (0.015)
Age60	0.082*** (0.14)	0.051* (0.030)	0.086*** (0.015)	0.048 (0.029)	0.087*** (0.015)	0.043 (0.030)	0.096*** (0.015)	0.049 (0.033)	0.088*** (0.015)	0.045 (0.028)	0.097*** (0.015)	0.042 (0.030)
Age64 * ROA	0.082*** (0.034)	-0.039* (0.023)	0.079*** (0.034)	-0.040* (0.024)	0.077*** (0.034)	-0.052 (0.034)	0.081*** (0.024)	-0.050*** (0.035)	0.087*** (0.024)	-0.038 (0.035)	0.092*** (0.024)	-0.040 (0.031)
Firm Age	0.003 (0.004)	-0.009 (0.006)	0.000 (0.004)	-0.014** (0.007)	0.000 (0.004)	-0.011 (0.008)	-0.020 (0.019)	-0.001 (0.035)	-0.001 (0.008)	-0.012 (0.008)	-0.016 (0.008)	-0.017 (0.011)
Size	0.213*** (0.055)	-0.200*** (0.070)	-0.112* (0.059)	-0.158* (0.083)	-0.110* (0.059)	-0.134 (0.061)	0.126*** (0.061)	-0.182*** (0.087)	0.136*** (0.062)	-0.241*** (0.092)	0.141*** (0.062)	-0.216*** (0.096)
Year of Hire	0.035*** (0.010)	0.050*** (0.018)	0.028*** (0.010)	0.040*** (0.020)	0.029*** (0.010)	0.042*** (0.020)	0.024*** (0.021)	0.047*** (0.021)	0.030*** (0.020)	0.044*** (0.020)	0.028*** (0.010)	0.040*** (0.020)
Chairman	0.428* (0.225)	0.545 (0.347)	0.563** (0.228)	0.579 (0.357)	0.567*** (0.228)	0.517 (0.358)	0.602*** (0.233)	0.496 (0.363)	0.486*** (0.233)	0.648* (0.362)	0.539** (0.232)	0.621* (0.362)
Prop Outside	-1.041*** (0.510)	-0.634 (0.850)	-0.642 (0.528)	-0.993 (0.904)	-0.645 (0.529)	-1.109 (0.909)	-0.625 (0.528)	-1.118 (0.913)	-0.638 (0.539)	-1.200 (0.903)	-0.745 (0.536)	-1.425 (0.901)
Directors	0.007 (0.005)	-0.004 (0.008)	-0.003 (0.005)	-0.003 (0.008)	-0.003 (0.005)	-0.002 (0.008)	-0.003 (0.005)	-0.004 (0.008)	-0.010 (0.016)	0.014 (0.022)	-0.012 (0.010)	0.017 (0.011)
Inside Ownership	-0.007 (0.005)	-0.008 (0.008)	-0.003 (0.005)	-0.003 (0.008)	-0.003 (0.005)	-0.002 (0.008)	-0.003 (0.005)	-0.004 (0.008)	-0.010 (0.016)	0.014 (0.022)	-0.012 (0.010)	0.017 (0.011)
Outside Ownership	-0.003 (0.009)	0.025*** (0.009)	-0.001 (0.009)	0.029*** (0.009)	-0.001 (0.009)	0.032*** (0.009)	0.028*** (0.009)	0.029*** (0.009)	0.001 (0.009)	0.029*** (0.009)	0.003 (0.009)	0.034*** (0.009)
Formal ILM	0.907*** (0.243)	0.424 (0.322)	0.889*** (0.244)	0.424 (0.322)	0.889*** (0.244)	0.334 (0.341)	1.215*** (0.498)	-0.342 (0.590)	1.305*** (0.373)	0.603 (0.437)	0.837*** (0.244)	0.269 (0.323)
Past Insiders	0.749** (0.304)	0.375 (0.534)	0.771** (0.312)	0.375 (0.534)	0.771** (0.312)	0.376 (0.500)	-0.072 (0.500)	0.731 (0.856)	0.211 (0.419)	1.231 (0.749)	-0.043 (0.454)	1.077 (0.781)
Past Outsiders	0.252 (0.403)	1.480*** (0.535)	0.296 (0.409)	1.480*** (0.535)	0.296 (0.409)	1.772*** (0.595)	0.603 (0.769)	1.854*** (0.908)	-204 (0.501)	1.010 (0.818)	393 (0.513)	1.955*** (0.584)
Combined In & Out	0.651* (0.382)	1.226** (0.618)	0.688* (0.244)	1.226** (0.618)	0.688* (0.244)	1.676** (0.679)	0.402 (0.693)	1.858* (1.010)	-265 (0.520)	1.645** (0.820)	536 (0.417)	2.500*** (0.788)
Formal ILM	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* ROA	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Past Insiders	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* ROA	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Past Outsiders	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* ROA	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Combined In & Out	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Formal ILM	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* Firm age	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Past Insiders	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* Firm age	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Past Outsiders	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* Firm age	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Combined In & Out	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Formal ILM	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* Inside ownership	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Past Insiders	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* Inside ownership	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Past Outsiders	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* Inside ownership	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Combined In & Out	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
* Inside ownership	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Likelihood Ratio	-776.655	-756.809	-747.202	-751.775	-746.87	-736.628	-736.628	-736.628	-736.628	-736.628	-736.628	-736.628
Df	30	38	46	46	46	48	48	48	48	48	48	48
Number of Events	159	159	159	159	159	159	159	159	159	159	159	159

\* p < 10, \*\* p < 05, \*\*\* p < 0001

\* Standard errors in parenthesis

Table 3

**Maximum Likelihood Estimates of the Competing Risks of Insider vs. Outsider CEO Selection, Piecewise Exponential Models Comparison of Full Sample with Early CEO Departures\***

Variables	Model 2		Model 2a		Model 6		Model 6a	
	Insider	Outsider	Insider	Outsider	Insider	Outsider	Insider	Outsider
0 to 2 years	-7.708**** (.823)	-8.439**** (1.544)	-8.663**** (1.327)	-9.260**** (2.157)	-6.450**** (.862)	-9.600**** (1.626)	-8.350**** (1.368)	-10.204**** (2.206)
2 to 7 years	-6.168**** (0.756)	-6.683**** (1.409)	-7.939**** (1.257)	-7.598**** (2.038)	-5.527**** (0.798)	-7.352**** (1.459)	-7.575**** (1.302)	-7.994**** (2.065)
7 to 12 years	-5.782**** (.730)	-6.246**** (1.356)	-7.297**** (1.204)	-7.142**** (1.951)	-5.124**** (.773)	-6.839**** (1.398)	-6.862**** (1.244)	-7.483**** (1.976)
12 to 17 years	-5.590**** (.728)	-6.064**** (1.323)	-7.144**** (1.184)	-7.172**** (1.932)	-4.960**** (.766)	-6.571**** (1.367)	-6.735**** (1.239)	-7.416**** (1.971)
17 years or over	-5.484**** (.608)	-6.289**** (1.165)	-7.537**** (1.091)	-7.379**** (1.766)	-4.818**** (.660)	-6.690**** (1.192)	-6.985**** (1.147)	-7.456**** (1.768)
ROA	-.023** (.011)	-.024*** (.008)	-.021* (.012)	-.023*** (.009)	-.035** (.016)	-.085**** (.015)	-.035** (.015)	-.089**** (.017)
Age60	.086**** (.015)	.048 (.029)	.150* (.086)	.130 (.149)	.097**** (.015)	.042 (.030)	.146* (.087)	.153 (.152)
Age64 * ROA	.079** (.034)	-.040* (.024)			.092*** (.035)	-.040 (.031)		
Firm Age	.000 (.004)	-.014** (.007)	-.006 (.006)	-.015* (.009)	-.016 (.008)	-.017 (.011)	-.027* (.013)	-.019 (.014)
Size	.112* (.059)	.158* (.083)	.009 (.081)	-.199* (.106)	.141** (.062)	-.216** (.096)	.014 (.084)	-.262** (.122)
Year of Hire	.028*** (.010)	.040** (.020)	.053*** (.017)	.037 (.028)	.028*** (.010)	.040** (.020)	.057**** (.017)	.029 (.028)
Chairman	.563** (.228)	.579 (.357)	.629** (.271)	.450 (.425)	.539** (.232)	.621* (.362)	.602** (.271)	.657 (.432)
Prop. Outside Directors	-0.642 (.528)	-.993 (.904)	-0.293 (.736)	-.616 (1.135)	-0.745 (.536)	-1.425 (.901)	-0.505 (.740)	-.980 (1.115)
Inside Ownership	-.003 (.005)	-.003 (.008)	.009 (.006)	.003 (.010)	-.012 (.010)	.017 (.011)	-.003 (.014)	.035** (.014)
Outside Ownershi	-.001 (.009)	.029*** (.009)	-.006 (.012)	.033*** (.011)	.003 (.009)	.034**** (.009)	-.004 (.012)	.037**** (.011)
Formal ILM	.907**** (.243)	.424 (.322)	.906*** (.295)	.307 (.381)	.837**** (.244)	.269 (.323)	.863*** (.296)	.156 (.389)
Past Insiders	.749** (.304)	.375 (.534)	.530 (.471)	1.355 (.860)	-.043 (.454)	1.077 (.781)	-.280 (.620)	2.366** (1.010)
Past Outsiders	.252 (.403)	1.480*** (.535)	.335 (.547)	2.388*** (.861)	.393 (.513)	1.955**** (.584)	.461 (.605)	2.746*** (.914)
Combined In. & O	.651* (.382)	1.226** (.618)	-.003 (.588)	1.885** (.947)	.536 (.417)	2.500*** (.788)	.315 (.756)	3.397*** (1.195)
Past Outsiders					.027 (.044)	.068**** (.021)	.053 (.047)	.076**** (.023)
* ROA					.016 (.024)	.101**** (.031)	.024 (.027)	.100*** (.035)
Combined In. & Out.					.021** (.009)	.018 (.016)	.027* (.014)	.022 (.020)
* Firm age					.007 (.011)	-.067*** (.024)	.010 (.016)	-.108*** (.035)
Past Insiders					.039** (.015)	-.018 (.825)	.035* (.020)	-.026 (.027)
* Inside ownership								
Combined In. & Out.								
* Inside ownership								
Likelihood Ratio	-756.809		-473.148		-736.628		-454.120	
D.f.	38		38		48		48	
Number of Events	159	57	85	38	159	57	85	38

\* p &lt; .10; \*\* p &lt; .05; \*\*\* p &lt; .01; \*\*\*\* p &lt; .0001.

\* Standard errors in parenthesis.

Figure 1: Competing Risks of Insider vs. Outsider CEO Selection

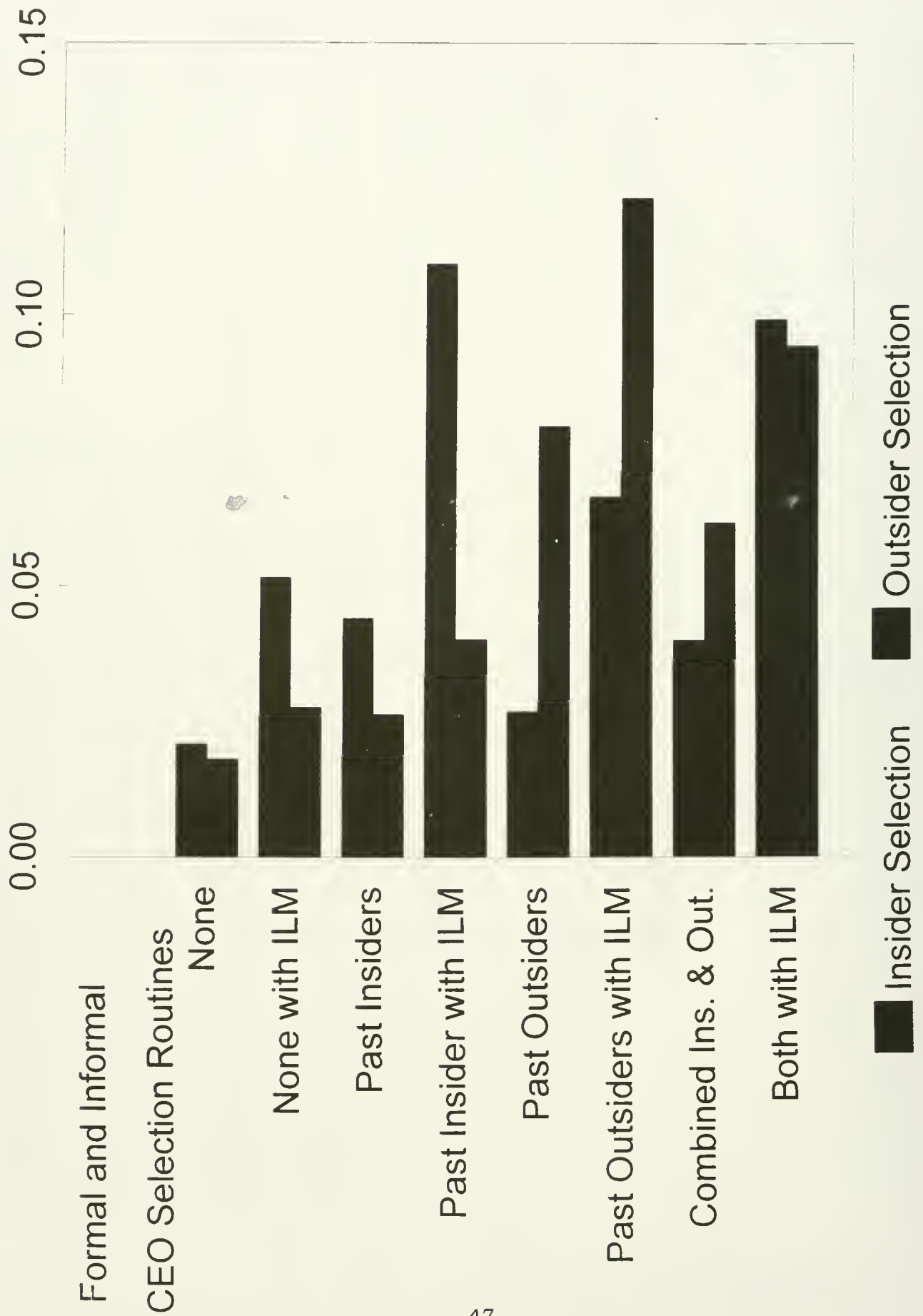


Figure 2: Effects of Past Insider Routines and ROA on the Rates of Insider and Outsider CEO Succession

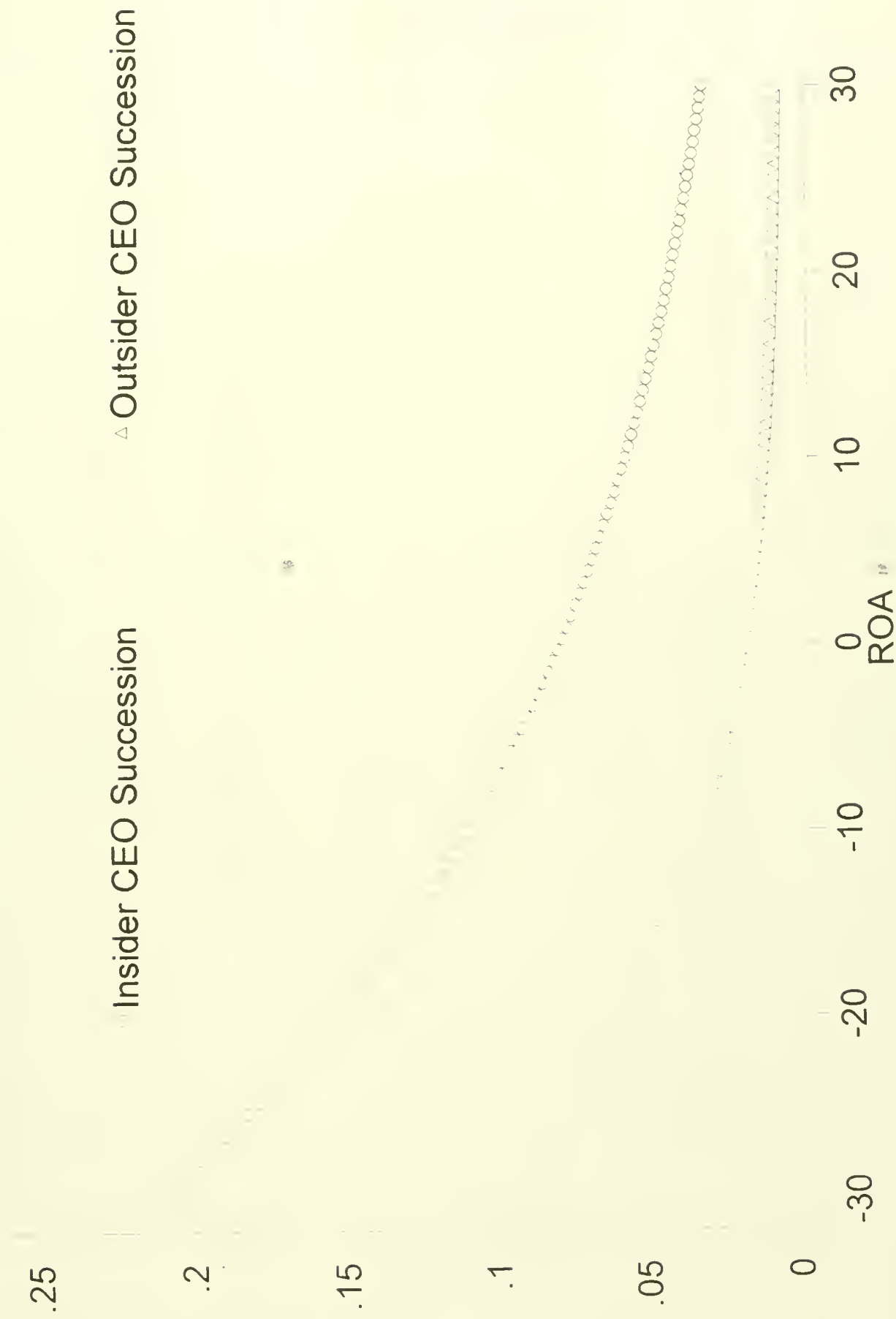


Figure 3: Effects of Past Outsider Routines and ROA on the Rates of Insider and Outsider Succession

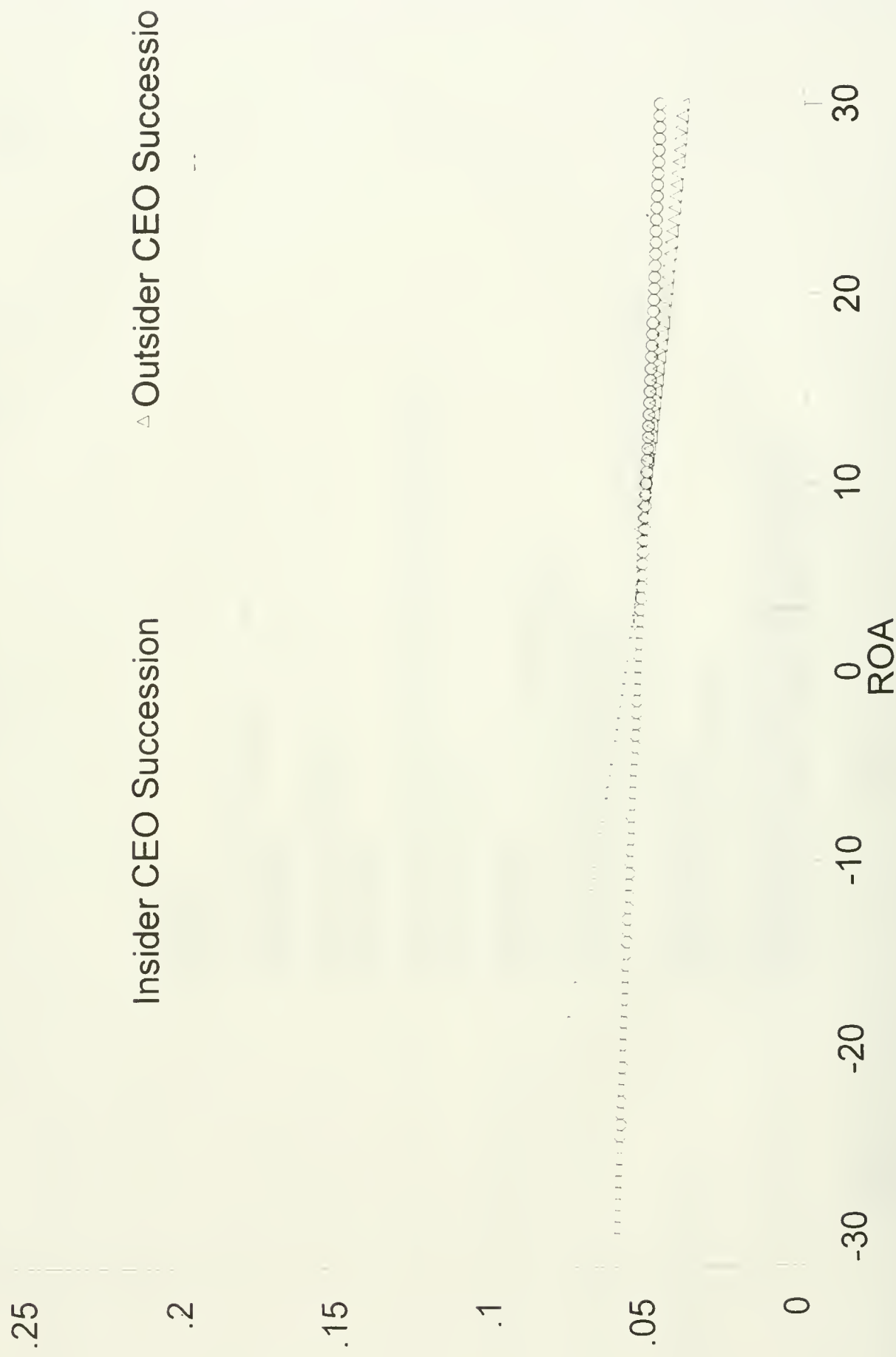
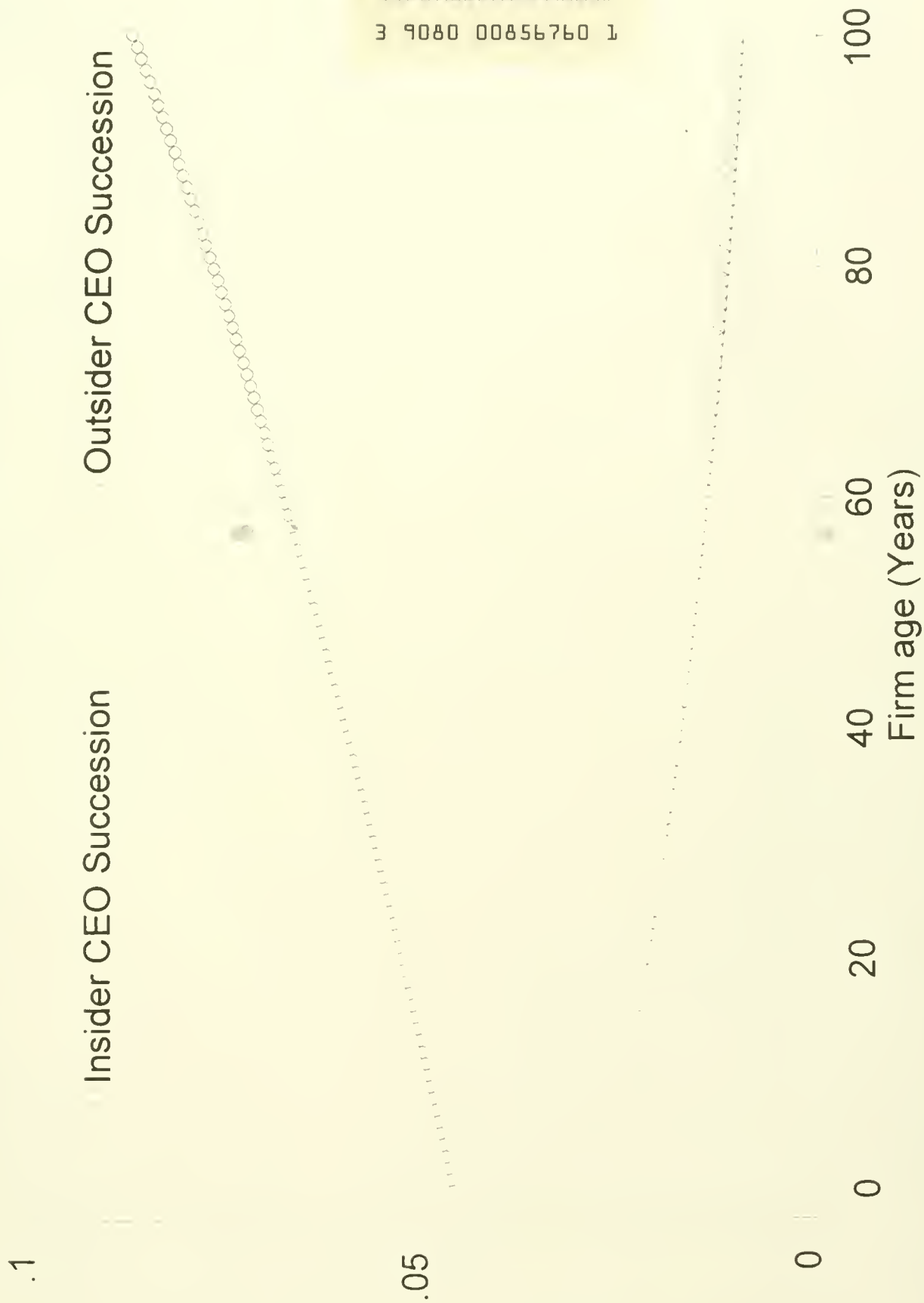


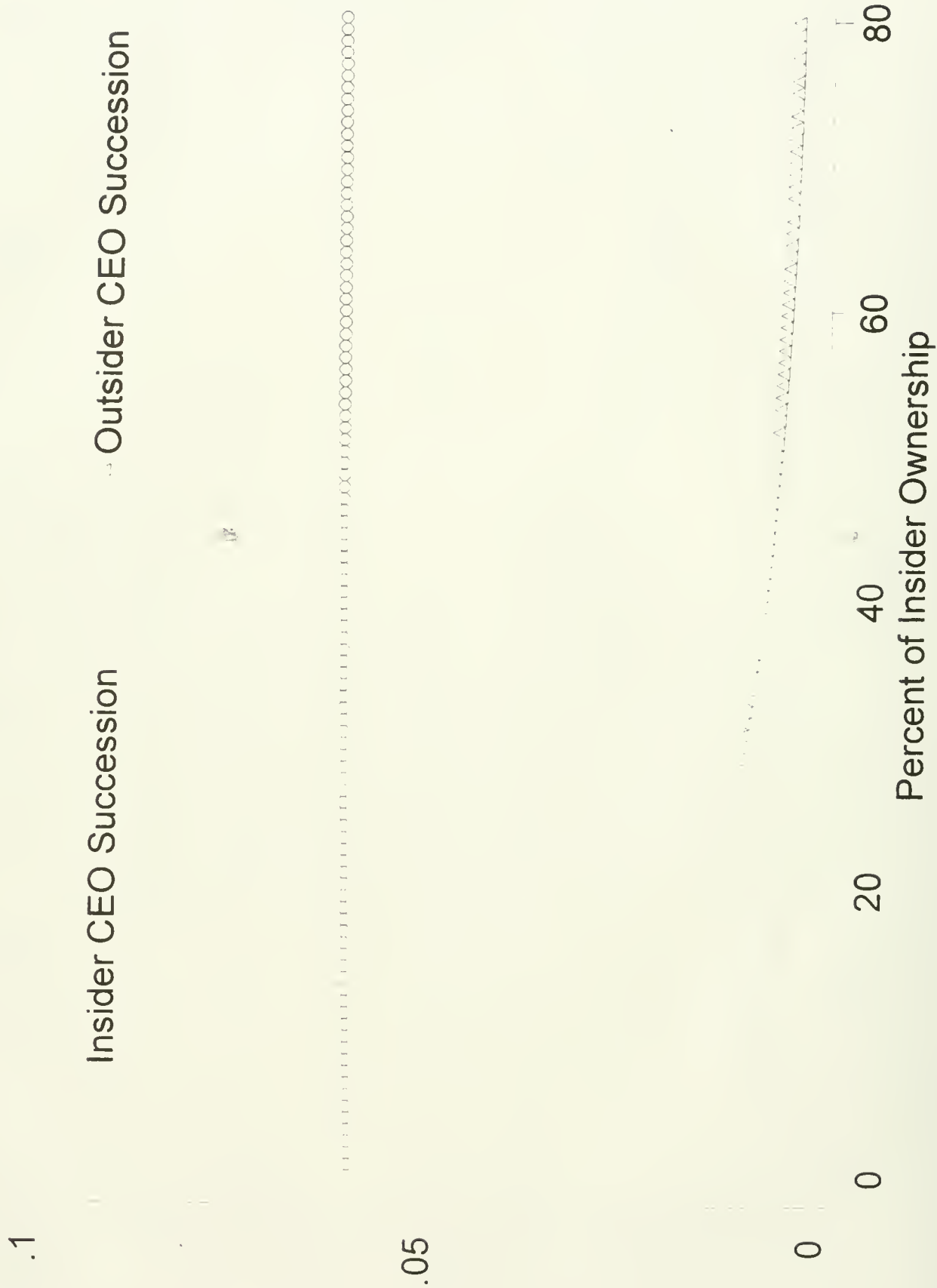
Figure 4: Effects of Past Insider Routines and Firm Age on the Rates of Insider and Outsider CEO Succession



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Figure 5: Effects of Past Insider Routines and Insider Ownership on the Rates of Insider and Outsider Succession





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